Senator Dow, Representative Tipping and distinguished members of the Taxation Committee, my name is Greg Dugal and I am here on behalf of the Maine Innkeepers Association and Maine Restaurant Association to speak in favor of LD 1655, which would conform Maine statute with recently amended tax statute (TCJA) at the Federal level.

With respect to taxes on hospitality businesses, the Governor's proposal would conform Maine's tax law to the new domestic business tax provisions of the federal code. Hospitality businesses would be able to take advantage of new bonus depreciation at the state level, as well as, the Federal level. Businesses would also be permitted to carry net operating losses forward indefinitely, subject to federal limitations. Conformity would also eliminate the Maine Capital Investment Credit and incorporate the new federal 20% pass-through deduction at the state level.

As was noted in Mike Allen and Alec Porteous' presentation to the committee, bonus depreciation would allow firms doing business in Maine to depreciate the entire value of a newly acquired asset—new or used—upon purchase. That provision would provide a fiscal benefit to Maine businesses of $38.3 million in the current biennium and $40.4 million in the coming biennium. The hospitality industry is an equipment intensive business, especially in commercial kitchens around the State. It is not uncommon to spend $10,000 each year on new and used equipment, obviously more or less, depending on the size of the business.

Also noted in their report, the TCJA changes the treatment of net operating losses (NOLs), such that firms can no longer carryback NOLs. They were formerly able to carryback NOLs two years and, now, can instead carry them forward indefinitely; whereas prior law limited NOL carryforwards to 20 years.

The synopsis from the report says it all. From a compliance standpoint, not conforming to the TCJA's business tax provisions would add complexity to filing for Maine firms. In the case of the provisions addressed above, failing to conform would create a situation in which firms potentially maintain two depreciation schedules for each newly acquired asset; utilize NOLs differently at the federal and state levels; and have different incentives at the federal and state levels to use debt as a financing vehicle.

Overall, the report continues, during the period covering this biennium and the next one, conforming to each of the domestic business tax provisions in the TCJA would result in a net tax cut for Maine firms of $13.6 million, with a $25.7 million reduction for pass-through entities and a $12.1 million increase in corporate taxes. Due to the increase in Maine's corporate tax burden that would result from strict conformity to the updated federal code, the CFTR contains a small corporate tax rate reduction, from 8.93 percent to 8.33 percent beginning in Tax Year 2020, that mitigates any tax increase and effectively holds harmless corporations. We represent hospitality businesses of all sizes from 3 room B&B's and 20 seat restaurants (pass throughs or sole props) to facilities that cater to thousands (potentially corporate tax filers,) so all provisions listed above assist our members.

It is for these reasons that we urge you to vote LD 1655 out of committee ought to pass to streamline our tax structure and we thank you for your consideration.

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